



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

REGION 6

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DALLAS, TEXAS 75202 - 2733

October 27, 2015

Jimmy Guidry, M.D.  
State Health Officer  
Louisiana Department of Health and Hospitals  
628 North 4<sup>th</sup> Street  
Baton Rouge, LA 70802

Dear Dr. Guidry:

Enclosed please find the final State Fiscal Year (SFY) 2014 Drinking Water State Revolving Fund (DWSRF) base program annual Program Evaluation Report (PER) for your review. The report is based on the State's FY 2014 Drinking Water Revolving Loan Fund (DWRLF) Annual Report, on-site discussions and file reviews at the State office on March 2-6, 2015, and the Environmental Protection Agency's (EPA) completion of our standardized national checklist of program evaluation questions. We appreciate your DWRLF Program's assistance in this review process.

The program is commended for complying with section 1452 of the Safe Drinking Water Act (SDWA) and 40 CFR 35.3570(c), the capitalization grant, as well as the operating agreement conditions. While minor issues were identified and resolved with the federal reporting databases; EPA is encouraged by the program's dedication to helping potential borrowers through a streamlined approach throughout the state with ongoing communication through the application process. EPA also commends LDHH for implementing the first in first out (FIFO) method to expedite drawing funds from DWSRF grants and for maintaining a tracking system that captures how grant requirements and annual budgets are being maintained while using this method.

If you have any questions regarding the report, please contact me at (214) 665-7100, or have your staff contact Mr. Maurice Rawls, Chief, SRF and Projects Section, at (214) 665-7120.

Sincerely,

A handwritten signature in purple ink, which appears to read "William K. Honker", is written over the typed name.

William K. Honker, P.E.  
Director

Water Quality Protection Division

Enclosure

cc: Jenny Wilson, LDHH,  
DWRLF Manager



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U.S. Environmental Protection  
Agency, Region 6

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Drinking  
Water  
Revolving  
Loan  
Fund

# Louisiana Final Program Evaluation Report

STATE FISCAL YEAR 7/1/13 –  
6/30/2014

Prepared by EPA Region 6  
Assistance Programs Branch  
October 2015

# **DWSRF BASE PROGRAM EVALUATION REPORT**

## **I. Introduction**

The purpose of this Program Evaluation Report (PER) is to present findings, conclusions, and recommendations based on the State Fiscal Year (SFY) 2014 operation of the Louisiana Drinking Water Revolving Loan Fund (DWRLF) Program, and to document whether the State has complied with the requirements of Section 1452 of the Safe Drinking Water Act (SDWA) and 40 CFR 35.3570 (c).

Section 1452 of the SDWA and 40CFR35.3570(c) require the Environmental Protection Agency (EPA) to conduct an annual program review of each State's Drinking Water State Revolving Fund (DWSRF) program in terms of the Annual Report and other such materials considered necessary and appropriate in carrying out the purposes of the SDWA.

The purposes of the annual review are:

- to evaluate the success of the state's performance in achieving goals and objectives identified in the Intended Use Plan (IUP), and the State's Annual Report;
- to evaluate the State's compliance with its Operating Agreement;
- to determine compliance with Part 31 of the general grant regulations and the provisions of the capitalization grant agreement, including special conditions;
- to assess the financial status and performance of the fund;
- to review the status of resolution of prior year Program Evaluation Report (PER) findings; and
- to examine and follow up on any open audit findings and recommendations.

## **II. Review Results and EPA Recommendations**

This annual program review covered the SFY 2014 operation, (July 1, 2013 to June 30, 2014), as well as previous years, and was conducted both in-house at EPA and on-site at the Louisiana Department of Health and Hospitals (LDHH) offices. The review was conducted on March 2-6, 2015 and covered active grants FS-996968-13, FS-996968-14, FS-996968-15, FS-996968-16, and FS-996968-17. In addition to staff interviews, EPA reviewed the following two project files: the community of Weston in Jackson Parish; and the Town of Gramercy in St. James Parish.

Notwithstanding the following observations, EPA found that the Louisiana DWRLF is in compliance with Section 1452 of the Safe Drinking Water Act (SDWA) and 40 CFR 35.3570(c), its capitalization grant conditions, and operating agreement conditions.

## **A. Programmatic, Technical, and Environmental Review Results**

### **1. Operating Agreement**

While onsite, LDHH and EPA staff discussed plans to review their Operating Agreement (OA) this upcoming year. EPA will provide LDHH electronic versions of OAs of Region 6 SRF programs that were recently revised, upon the request of LDHH.

### **2. Unliquidated Obligations (ULOs)**

On April 14, 2014, EPA HQ released the DWSRF ULO Reduction Strategy in response to an audit conducted by the Office of the Inspector General (OIG). In July 2014, the OIG released a final report titled “Unliquidated Obligations Resulted in Missed Opportunities to Improve Drinking Water Infrastructure.” EPA staff discussed ULOs while onsite and discussed the two goals identified in the ULO Reduction Strategy, as well as implementation of the best practices mentioned in the plan. EPA regional staff also shared Monthly ULO Reports generated by EPA HQ, which tracks States’ progress towards these two goals. Below is a summary of how LDHH is meeting the goals and best practices outlined in the plan.

#### **a. Status/Discussion of Goals**

1. Full utilization of funds from previous DWSRF grants (Federal Fiscal Year (FFY) 2013 and prior years' funds) by the end of September 2016.

At present, LDHH’s balance in grants FS-996968-13, FS-996968-14, and FS-996968-15 that are from FFYs 2010, 2011 and 2012 is more than \$4.5 million. The balance of the FFY 2013 grant (FS-996968-16) is more than \$7 million. LDHH explained that the Ville Platte meter replacement project that is being funded from the FFY11 funds (FS-996968-14) for SFY12 will close after FS-996968-15 for SFY13. This was due to the Ville Platte effort consisting of three phases, of which the third phase was going out for bids at the time of the on-site. Being that Ville Platte is a very old community with a lack of mapping and historical records for the utility; each phase has taken longer than anticipated. The program also explained that several existing large construction projects would be drawing down the balance of any prior FFY13 funds.

***EPA Required Action No.1:*** Please advise EPA on your current plan to expend the remaining FFY13 and prior years’ funds, in order to meet this deadline.

***LDHH Response:*** The FY10 (Grant No.: FS-996968-13) grant funds were completely disbursed in June 2015. The FY11 (Grant No.: FS-996968-14) grant funds remaining are green project reserve (GPR) funds reserved for the City of Ville Platte \$10M project, which is progressing and continuing to draw on those funds. There are currently 31 existing loans totaling \$111,621,200 (8 of which just closed in the last 2 months for a total of \$29,600,000). LDHH expects the construction drawdowns from these loans to help them meet the deadline. Additionally, the remaining funds are already in the loan fund and thus cannot be transferred back to the loan fund.

***EPA Response:*** Thank you for your response.

2. Complete draw down of funds from future years' grants within two years from the date of grant award.

EPA recommends that State's draw federal funds using the first in first out (FIFO) method. LDHH has followed this method for all funds, with the exception of the Green Project Reserve and Additional Subsidy funds, which have been disbursed to projects based on which capitalization grant of which they were designated. LDHH is currently switching to a true FIFO method for all SRF funds. EPA and State staff discussed the transition while onsite.

***EPA Commendation No. 1:*** EPA commends LDHH for implementing the FIFO method to expedite drawing funds from DWSRF grants. EPA commends LDHH for maintaining a tracking system that captures how grant requirements and annual budgets are being maintained while using this method.

***EPA Recommendation No.1:*** Please keep EPA informed regarding the processes in place to expend funds within two years of capitalization grant awards.

***LDHH Response:*** LDHH will continue to close loans and improve water system infrastructure in LA, doing its part to further the public health protection objectives of the Safe Drinking Water Act.

***EPA Response:*** Thank you for your response.

***EPA Recommendation No.2:*** EPA recommends that this goal be added to future IUPs.

***LDHH Response:*** LDHH will add this goal to the goals of its future IUPs along with the language of the law allowing states 4 years to expend grant dollars.

***EPA Response:*** Thank you for adding this goal to future IUPs.

b. Implementation of Best Practices

1. Focus on Ready-To-Proceed Projects - States are strongly advised to ensure that construction funding for projects on the fundable list are not awarded until projects are ready to begin construction.

LDHH states the following in their SFY2015 IUP (page 12), "The construction of the project must be ready to proceed within 30 days of the signing of the loan commitment and must be completed in a timely manner in accordance with the construction schedule approved as a condition of the loan." The IUP also states (page 22) in the discussion of bypass procedures, "The LDHH reserves the right to allow lower priority projects to bypass higher priority projects for funding if, in the opinion of the DWRLF Program Manager, a higher priority project has not taken the necessary steps to expeditiously prepare for funding and is not ready to proceed with construction." The explanation continues with, "Where it becomes evident to the OPH-DWRLF Program Manager that a project on the Fundable List is not proceeding to construction within the specified time during the current funding year, he/she may remove the project from the Fundable List and return it to the Comprehensive Priority List."

2. Develop a Robust List of Fundable Projects – A robust fundable list contains projects of cumulative value that sufficiently exceeds the amount a state expects to provide in assistance in the period covered by its Intended Use Plan (IUP). Projects on the fundable list should be immediately ready, or be poised to be ready, to enter into assistance agreements.

LDHH has a large list of contingency projects that they include in the IUP. These projects will move to the fundable list once they are “ready to proceed.”

3. Forecast Financing Capacity through Use of Cash Flow or Similar Analysis

LDHH regularly analyzes the sustainability of the program to ensure it will exist into perpetuity. The LDHH regularly gets advice and cash flow & capacity modeling from their financial advisors, Public Financial Management. The Cash Flow & Capacity analysis is submitted with their Annual Report. In response to suggestions made by EPA, LDHH developed a twenty year cash projection that is included in the SFY2016 IUP on pages 39 to 46 as Attachment 7.

4. Manage Set Aside Accounts to Reflect the Pace of Funds Use

The Set-Aside spending rate, as tracked in the NIMs reports, shows that the program is moving the set aside funds at a Pace of 82.3%, which is slower than the national average of 86.4%. However, the set-aside funds have less than two years of capitalization funds available and the state reviews the funds and considers moving to the loan fund as needed.

5. Draw Down Federal Funds and State Match First

LDHH state match funds are matched by the State of Louisiana with a letter of credit consisting of authorization of the State Bond Commission to issue Revenue Bonds. In compliance with federal guidelines, as Louisiana draws federal funds into the LA DWRLF, the appropriate amount of state match is simultaneously deposited in the DWRLF. EPA staff verified that state accounting records show these transactions.

6. Accelerate Federal Cash Draws through Prompt Invoicing

The LDHH reviews disbursement requests as they are received and forwards them for payment. In the transactions reviewed, the disbursements were processed in less than two weeks.

### **3. Implementing Federal Cross-Cutting Authorities**

On November 5, 2013, EPA released a memo titled “Procedures for Implementing Environmental Federal Cross-Cutting Authorities in the Clean Water and Drinking Water State Revolving Fund Programs,” which clarifies procedures for applying federal environmental cross-cutting authorities to projects and activities receiving assistance under the Clean Water and Drinking Water State Revolving Funds. In order to streamline the cross-cutting process, this memo states that records do not necessarily need to show

that each federal agency responsible for administering a cross-cutting authority has been consulted on the particular project. Specifically, if State SRF staff perform an internal analysis and conclusively determine that the proposed project has no potential impact related to a federal cross-cutting authority, then it is not necessary to consult with the agency responsible for that cross-cutter.

As part of an explanation of their program's internal analysis, EPA was pleased to be reminded that documentation for loan recipients includes an acknowledgement of the recipient's responsibilities for this requirement. LDHH guidance was recently updated in response to changes in personnel.

#### **4. Cross-Cutters as they apply to Federal Funding Accountability and Transparency Act (FFATA)**

On December 10, 2014, EPA released a memo affirming that banking of federal cross-cutting authorities is not allowed in the CWSRF/DWSRF program. In 2010, the enactment of FFATA required SRF programs to report in the FFATA Subaward Reporting System (FSRS) on recipients that receive federal dollars. LDHH requires all projects to comply with all crosscutter requirements.

EPA staff reviewed LDHH information reported to FFATA and compared the information to documentation in the project file and information reported in PBR. Overall, LDHH did a good job establishing a Standard Operation Procedure (SOP) for their reporting functions as was demonstrated by the few discrepancies found by EPA staff that were resolved with the assistance of LDHH staff before this PER was finalized. A summary of amounts reported to FFATA is below.

<b>Grant</b>	<b>Cap Grant Amount Awarded</b>	<b>Set-Aside Amount</b>	<b>Amount Available for Loans</b>	<b>Reported to FFATA</b>
99696814	\$17,798,000	\$2,565,000	\$15,233,000	\$14,155,000
99696815	\$16,962,000	\$2,875,000	\$14,087,000	\$14,087,000
99696816	\$15,914,000	\$2,970,000	\$12,944,000	\$12,944,000
99696817	\$12,127,000	\$2,615,000	\$9,512,000	\$7,695,000

***EPA Commendation No. 2:*** EPA commends LDHH for creating SOPs for reporting functions.

***EPA Recommendation No. 3:*** Review reporting SOP(s) to ensure that correct information is reported.

***LDHH Response:*** LDHH developed an SOP for reporting FFATA some time ago and provided it to EPA staff during a previous review. Additionally, PBR and FFATA

Reporting line items have been added to the DWRLF Project Engineer's "Project Summary Checklist" in order to further emphasize the importance of this reporting.

**EPA Response:** Thank you for your response.

## **5. Public Benefits Reporting (PBR)**

Recent requests from Congress, the Office of Management and Budget (OMB), and EPA's Office of Inspector General (OIG) have highlighted the importance of having timely and complete data related to DWSRF performance. EPA Office of Inspector General recently completed an audit of the DWSRF, focusing on unliquidated obligations and efficiency of funds use, as well as the Agency's ability to report on public health benefits of DWSRF projects. The recommendations of the Inspector General regarding these audits and the associated corrective actions appear as an attachment to the memorandum released on December 22, 2014. EPA's responses for the corrective action recommendations regarding PBR are: (1) States should update project descriptions according to the guidance to better describe public health benefits, and (2) States should have a formal quality assurance (QA) process for entering data to required fields in the PBR system. While the DWSRF list of required fields is unchanged, the recent internal audit found missing data in critical fields that contribute to determining public health outcomes. EPA Headquarters will provide quarterly reports to Regions on the completeness of key fields in PBR.

EPA staff reviewed the DWSRF data as part of this annual review. The LDHH reports appeared to be complete.

**EPA Recommended Action No.4:** Regarding PBR reporting, please ensure PBR data: 1. includes Actual Dates, not estimates; 2. has construction start dates that are reflected on the notice to proceed for construction projects; 3. has Agreement Dates consistent with the bond agreements; and 4. has detailed project descriptions. Project descriptions should include information concerning GPR if applicable.

**LDHH Response:** 1. LDHH uses only actual dates and not estimates; 2. LDHH uses "the date of execution of the contract awarded for the project" as the Project Start Date as allowed by the PBR help screen; 3. Agreement Dates are consistent with the bond agreements; and 4. LDHH provides detailed project descriptions and includes GPR information when applicable.

**EPA Response:** Thank you for your response.

**EPA Required Action No.3:** Project descriptions of DWSRF-financed projects should include the compliance objective(s) to be addressed by the funding. This improvement in reporting will establish a clear connection between the funds and the public health outcomes.

**LDHH Response:** LDHH respectfully requests this item be removed. The PBR help section clearly states that entering "Compliance Objectives" is optional.

**EPA Response:** Thank you for your response.

**EPA Required Action No.4:** If project information changes throughout a project, ie. project description, green amount, etc., please update to include most recent and accurate

information. At a minimum the State is required to update all information when project is complete.

**LDHH Response:** LDHH updates the PBR as project information changes. The SOP for project completion includes updating fields in the PBR. Additionally, a new “Project Close-Out” Section has been added to the DWRLF Project Engineer’s “Project Summary Checklist” that serves as a reminder to update the project description and any other information that may have changed in the PBR when closing out the project.

**EPA Response:** Thank you for your response.

**EPA Required Action No.5:** EPA relies on the information in PBR to report to the Office of Management and Budget (OMB), the Office of the Inspector General (OIG), and Congress concerning the GPR grant requirement. As GPR information changes, updates to these systems should be made timely. At a minimum, final GPR expenditure amounts, verified with pay requests, should be updated in PBR. Please verify that GPR information for closed projects has been updated in PBR.

**LDHH Response:** LDHH respectfully requests that this item be removed. LDHH has had only two grant years mandating GPR— FY10 and FY11. The City of Ville Platte was the only GPR project for both grant years and no other projects for subsequent grant years included any GPR (until this year’s grant). The Ville Platte project is still under construction and therefore cannot yet be finalized in PBR. Thus, there are no closed GPR projects to verify.

**EPA Response:** Thank you for your response.

**EPA Required Action No.6:** Develop a QA process for PBR reporting.

**LDHH Response:** LDHH respectfully requests that this item be removed. LDHH has an SOP for PBR reporting and will provide it to Region 6.

**EPA Response:** Thank you for having provided Region 6 the LDHH’s SOP for PBR reporting.

## **6. Inspection Reports**

EPA staff reviewed state inspections, and evaluated inspections according to the Project File Checklist. As part of this review, EPA evaluated the following: (1) whether inspections were performed at intervals in accordance with the State’s procedures, (2) whether the inspection reports indicate the project was in compliance with grant requirements such as Davis Bacon, Green Project Reserve eligibility (when applicable), American Iron and Steel (AIS); and (3) whether all issues and concerns identified in the inspection reports were adequately resolved.

LDHH conducts monthly inspections during the construction phase, and periodic inspections as needed, during other phases.

**EPA Commendation No. 3:** EPA commends LDHH on their project inspection forms and SOPs.

## 7. Davis Bacon Payroll Review Documentation in Project File

EPA staff reviewed state inspections, and evaluated them according to the Project File Checklist. As part of this review, EPA staff must ensure the “Project file includes documentation from the assistance recipient indicating compliance with Davis Bacon for each weekly payroll.” Frequency of these requests are typically monthly. EPA was pleased to learn that a “cottage industry” of Davis Bacon certifiers has evolved in Louisiana, as a result of the emphasis being placed on Davis Bacon compliance.

## 8. Louisiana Water/Wastewater Joint Funding Committee (LWWJFC)

LDHH is a member of the Louisiana Water/Wastewater Joint Funding Committee (LWWJFC). LWWJFC is a group of federal and state organizations that offer financing to eligible Louisiana public entities for water and wastewater projects. The purpose of the team is to facilitate the funding process through communication and streamlined application processes. LWWJFC provides a single uniform method for requesting funding and regulatory approvals, and it offers guides, checklists, and forms that are accepted by all LWWJFC-participating agencies.

***EPA Commendation No. 4:*** EPA commends LDHH for their dedication to helping potential borrowers through a streamlined approach throughout the State with ongoing communication through the application process.

## B. Financial Review Results

### 1. Cash Draws

- Beginning with reviews of SFY 2012 (FY 2013 reporting), the SRF programs are required to perform transaction testing on cash draws identified by the EPA Office of the Chief Financial Officer (OCFO) using a statistical sampling approach. Each year, the EPA Headquarters SRF branches will communicate the selected cash draws (including the date and amount) to the Regions once they are identified by OCFO. If fewer than four DWSRF cash draws were identified by the statistical sampling approach, the Regions are responsible for selecting additional cash draws to ensure that a minimum of four draws are reviewed for each program. The following four (4) DWSRF cash draws were reviewed. For SFY2014 the EPA Office of Chief Financial Officer (OCFO) randomly selected three (3) of the draws (as noted by “OFCO selected”) and EPA Region 6 randomly selected one (1) draw to meet the requirement of four draws tested.

#	Grant #	Date	Amount	Selected by:
1	FS99696816	05/21/14	\$29,681.00	OCFO
2	FS99696815	03/28/14	\$3,856.33	OCFO
3	FS99696815	12/24/13	\$520,205.58	OCFO
4	FS99696813	12/24/13	\$582,683.39	Region 6

The first draw (\$29,681) tested was paid out of the 2% small systems (DE) set-aside fund. The funds paid for the State's salary, benefits, travel, and other services. The next three draws tested were loan draws made to reimburse construction expenditures. Construction expenditures included construction services and materials, engineering services, and inspection services for DWSRF projects. The documentation provided appeared to have all of the required invoices and justification to match the amount paid out by the State. The proportionality of each cash draw was also reviewed and documented by the State. The cash draw proportionality ratio is established by the State at the time the capitalization grant is awarded. Establishing formal cash draw ratios ensures both the federal and state funds are readily available and that the proportionality ratio is drawn correctly for each capitalization grant. After reviewing all of the cash draws listed, no improper payments were noted and, or reported by the State's management.

***EPA Recommendation No.5:*** As a reminder, please ensure all disbursement files have complete backup documentation and are fully auditable so that all backup totals the amount requested. If any changes are made, or if there are any discrepancies, please provide clear notes in the file explaining what occurred.

***LDHH Response:*** LDHH will continue to ensure all disbursement files have complete backup documentation and are fully auditable so that all backup documents total the amount requested.

***EPA Response:*** Thank you for your response.

## **2. State Match**

All federal funds are matched by the State of Louisiana with a letter of credit consisting of authorization of the State Bond Commission to issue Revenue Bonds. In compliance with Federal guidelines, as Louisiana draws federal funds into the State Drinking Water Revolving Loan Fund (DWRLF), the appropriate amount of State Match is simultaneously deposited into the DWRLF. During SFY 2014, \$3,869,210 of state match was deposited into the fund.

## **3. Timely and Expeditious Use of Funds**

The State's disbursement process is set up to receive invoices as they are submitted by the recipient. Currently there is no requirement to submit invoices in a monthly or quarterly bases. At this time the State does not have any issue receiving invoices on a monthly basis. Once invoices are submitted the State's goal is to reimburse recipients within 30 days of submission or sooner. The State is doing an excellent job getting disbursements out timely and expeditiously.

***EPA Recommendation No.6:*** As a best practice, include language in the loan agreement requiring recipient to submit invoices monthly or at least quarterly to ensure that all recipients are submitting their invoices timely for the State to review and process.

***LDHH response:*** LDHH will work with legal staff to consider making changes to the Loan and Pledge Agreement language.

**EPA Response:** Thank you for your response.

**ULO's:** LDHH DWSRF program currently has five (5) open capitalization grants. At the time of the on-site review the federal financial system (Compass) reported that LDHH's FFY 2010 grant had a balance of \$48 thousand, FFY 2011 had a balance of \$2.8 million, FFY 2012 had a balance of \$1.9 million, FFY 2013 had a balance of \$7.9 million, and FFY 2014 had a balance of \$12.0 million for an estimated total balance of \$24.8 million. The total balance is about two years' worth of federal capitalization grants. LDHH's staff informed EPA that the reason several capitalization grants are open are due to the State's large green project that ties both the FFY 2010 and FFY 2011 capitalization grants. Once the green project is complete the program will be able to draw down the necessary funds to close out the two capitalization grants. The goal set by EPA Headquarters (HQs) is to have no more than two open capitalization grants and to disburse each capitalization grant within two years. Though, EPA Region 6 has confidence that LDHH will accomplish this goal, currently, EPA HQ's "Monthly DWSRF ULO Report" dated 3/1/15 has LDHH presently not on target to meet the goal.

**EPA Required Action No.1:** Please advise EPA on your current plan to expend the remaining FFY13 and prior years' funds, in order to meet this deadline.

**LDHH Response:** The FY10 (Grant No.: FS-996968-13) grant funds were completely disbursed in June 2015. The FY11 (Grant No.: FS-996968-14) grant funds remaining are green project reserve (GPR) funds reserved for the City of Ville Platte \$10M project, which is progressing and continuing to draw on those funds. There are currently 31 existing loans totaling \$111,621,200 (8 of which just closed in the last 2 months for a total of \$29,600,000). LDHH expects the construction drawdowns from these loans to help them meet the deadline. Additionally, the remaining funds are already in the loan fund and thus cannot be transferred back to the loan fund.

**EPA Response:** Thank you for your response.

#### **4. Set-asides**

The state maintains a separate and identifiable account for the portion of the capitalization grant to be used for set-asides. Currently, the set-aside funds have less than two years of capitalization funds available.

#### **5. Compliance with Audit Requirements**

The Drinking Water Revolving Loan Fund Program will be audited by the State Legislative Auditor for state fiscal year ending June 30, 2014. The SFY 2014 audit will contain a report on Compliance with requirements applicable to the capitalization grants for DWSRF Program and will be posted on the web site and provided to EPA. The SFY 2014 audit for the year ended June 30, 2013 was completed March 6, 2014. No material weaknesses or findings were reported for the SRF program in the audit information that was submitted to EPA.

## 6. Single Audits

The loan recipients are required, for 2014, to provide single audits when annual expenditures of federal funds exceed \$500K. This requirement is actually an exhibit to the loan documents which must be signed by the applicant and it's Certified Public Accountant. Annual financial statements are due from loan recipients no later than 9 months from their year-end close date (6 months for older loans). A financial staff member is responsible for review of the financial statements when they are received and sends out notices for financial statements overdue. The statements are reviewed for any issues or findings that could majorly affect the loan recipients and documented in the annual FY audit tracker. The corrective actions to fix any issues or findings proposed by the loan recipients are reviewed in the following year's financial statement to make sure they have been corrected.

## 7. Staff Time Allocation/Reporting

Louisiana is required to comply with federal requirements in the Code of Federal Regulations specified in 2 CFR Part 225. Labor, fringe benefits, and indirect costs charged to federal grants must be based on actual activities performed, as opposed to budget allocations. EPA staff briefly interviewed several staff and reviewed the time allocation system that is used to track their time. At this time, it appears that LDHH is charging based on actual activities performed to federal grants.

## 8. Financial Management

EPA commends LDHH for the financial management and staffing of the DWSRF program. All financial, accounting, and internal control processes are well documented and updated regularly. LDHH management regularly analyzes the sustainability of the program to ensure it will exist into perpetuity. Financial and accounting records, as well as internal controls of the funds, are well managed and documented. During the on-site review discussions, LDHH noted that one of the financial staff who has been there for years providing much of the requested data retired. LDHH is commended for assigning a new staff member for that position to come in prior to retirement to shadows the position.

***EPA Recommendation No. 7:*** Please ensure that the position SOP as well as all SOPs are well documented to help ensure a smooth transition of duties and to maintain the good financial reporting and management of the DWSRF program.

***LDHH Response:*** LDHH has SOPs in place to ensure sufficient transfer of institutional knowledge to facilitate a smooth transition of duties, and to maintain good financial reporting and management of the DWRLF program.

***EPA Response:*** Thank you for your response.

## 9. Financial Indicators

The LA DWRLF program reported the following cumulative financial indicators:

	<u>National</u> <u>2014</u>	<u>State</u> <u>2012</u>	<u>State</u> <u>2013</u>	<u>State</u> <u>2014</u>
Federal Return on Investment	<u>176%</u>	<u>111.6</u>	<u>113.3%</u>	<u>119.2%</u>
Assistance as a % of Funds Available	<u>92.7%</u>	<u>88.7%</u>	<u>83.4%</u>	<u>83.7%</u>
Disbursements as % of Assistance Provided	<u>85.5%</u>	<u>81.0%</u>	<u>81.6%</u>	<u>83.6%</u>
Additional Assistance due to Leveraging	<u>NA</u>	<u>NA</u>	<u>NA</u>	<u>NA</u>
Net Return on Contributed Capital Excluding Subsidy	<u>11.7%</u>	<u>.80%</u>	<u>.60%</u>	<u>.70%</u>
Set-Aside Spending Rate	<u>86.4%</u>	<u>80.9%</u>	<u>81.2%</u>	<u>82.3%</u>

The financial indicators show that the return of federal investment has increased over the last few years, but is still below the National average. The assistance provided as a percent of funds available (also referred to as the “pace” of the program) is slightly below the National average. Disbursements as a percent of assistance provided increased in SFY 2014. Although the indicators are below the National average, LDHH has improved each of their financial indicators from the previous year.

### **III. STATEMENT OF COMPLIANCE WITH SRF ANNUAL REVIEW GUIDANCE**

We have conducted an annual review of Louisiana Drinking Water Revolving Loan Fund Program for program year 2014 in accordance with EPA’s SRF Annual Review Guidance.

**LDHH FY14 EOY PER**  
**REQUIRED AND RECOMMENDED ACTION ITEMS**

<b>EPA COMMENDATIONS</b>	
1. EPA commends LDHH for implementing the FIFO method to expedite drawing funds from DWSRF grants. EPA commends LDHH for maintaining a tracking system that captures how grant requirements and annual budgets are being maintained while using this method.	
2. EPA commends LDHH for creating SOPs for reporting functions.	
3. EPA commends LDHH on their project inspection forms and SOPs.	
4. EPA commends LDHH for their dedication to helping potential borrowers through a streamlined approach throughout the State with ongoing communication through the application process.	

<b>REQUIRED ACTION ITEMS</b>	<b>DUE DATE</b>
1. Please advise EPA on your current plan to expend the remaining FY13 funds, or transfer them back to the loan fund, in order to meet this deadline.	Provided to Region 6.
2. Please take action to delete repeated entries and make other adjustments to ensure that this information is reported accurately. EPA requires that an amount equal to the capitalization grant, but no more, be reported to FFATA.	Resolved.
3. Project descriptions of DWSRF-financed projects should include the compliance objective(s) to be addressed by the funding. This improvement in reporting will establish a clear connection between the funds and the public health outcomes.	Ongoing
4. If project information changes throughout a project, ie. project description, green amount, etc., please update to include most recent and accurate information. At a minimum the State is required to update all information when project is complete.	Resolved.
5. EPA relies on the information in PBR to report to the Office of Management and Budget (OMB), the Office of the Inspector General (OIG), and Congress concerning the GPR grant requirement. As GPR information changes, updates to these systems should be made timely. At a minimum, final GPR expenditure amounts, verified with pay requests, should be updated in PBR. Please verify that GPR information for closed projects has been updated in PBR.	Resolved.
6. Develop a QA process for PBR reporting.	Provided to Region 6.

<b>RECOMMENDED ACTION ITEMS</b>	<b>DUE DATE</b>
1. Please keep EPA informed regarding the processes in place to expend funds within two years of cap grant award.	Ongoing.
2. EPA recommends that this goal be added to future IUPs.	SFY16 IUP
3. Review reporting SOP(s) to ensure that correct information is reported.	Ongoing
4. Regarding PBR reporting, please ensure PBR data: 1. includes Actual Dates, not estimates; 2. has construction start dates that are reflected on the notice to proceed for construction projects; 3. has Agreement Dates consistent with the bond	Ongoing

agreements; and 4. has detailed project descriptions. Project descriptions should include information concerning GPR if applicable.	
5. As a reminder, please ensure all disbursement files have complete backup documentation and are fully auditable so that all backup totals the amount requested. If any changes are made or if there are any discrepancies please provide clear notes in the file explaining what occurred.	Ongoing
6. As a best practice, include language in the loan agreement requiring recipient to submit invoices monthly, or at least quarterly, to ensure that all recipients are submitting their invoices timely for the State to review and process.	Ongoing
7. Please ensure that the accountant's SOP is well documented to facilitate a smooth transition of duties, and to maintain good financial reporting and management of the DWSRF program.	Ongoing.

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